NATIONAL REPORT
SINGLE-TENANT NET-LEASE RETAIL

IPA INSTITUTIONAL PROPERTY ADVISORS

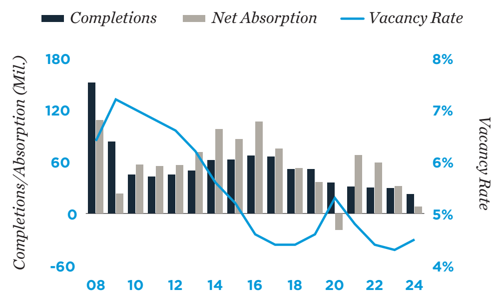
2025

Standout Fundamentals Across Most Single-Tenant Segments Revives Sales Activity

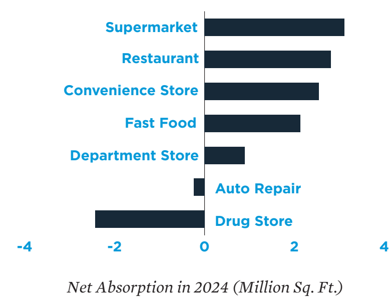
Vacancy sparse across food-related categories. Consumers' prioritization of necessity goods, dining and experiences remained intact during 2024, supporting a moderate shift in demand for single-tenant retail space. Entering 2025, segment vacancy sat at 4.5 percent, which is 100 basis points below the sector's long-term average. This metric, however, is skewed by recent drug stores closures and department store dark space, as vacancy in other single-tenant categories — convenience stores, fast food, restaurants and supermarkets — ranged from 1.0 percent to 3.7 percent at the onset of this year. Despite these scant rates, net absorption across each of these segments eclipsed the 2 million-square-foot mark last year, reflecting encouraging leasing and renewal activity. While this would appear to warrant a rise in single-tenant construction, the sector is on pace to add less than 30 million square feet for a fourth straight year, much of which is built-to-suit. The combination of minimal supply-side pressure and continued consumer resiliency — grocery stores, bars and restaurants noted record spending this January — should continue to reinforce positive leasing velocity, aiding property owners attempting to backfill space and retain tenants.

Subsectors' demand metrics entice more private investors. Contrasting most major commercial real estate sectors, the number of single-tenant assets that changed hands in 2024 was on par with the 2019 recording. Activity among private buyers was largely to credit for this encouraging transactional benchmark, reflected in the count of $1 million to $5 million closings exceeding the prior 10-year average. Many of these buyers utilized 1031 exchanges to trade into less management-intensive properties, including net-leased dining establishments, convenience stores and supermarkets that provide long-term stable income. As consumers prioritize lower-cost, quick-stop options, which will likely elevate amid potential inflation and household budget tightening, buyer competition for properties occupied by high-credit brands that operate in these categories could heighten. Vacant assets that fit the needs of these tenants should also be in demand. A host of retailers plot notable expansions in 2025, highlighted by Chipotle, Aldi, Raising Canes, Wawa, Sprouts and Casey's.

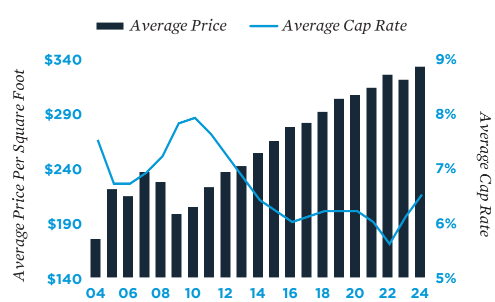
Supply and Demand



Food-Related Tenants Drive STNL Leasing



STNL Price & Cap Rate Trends



2025 SINGLE-TENANT OUTLOOK

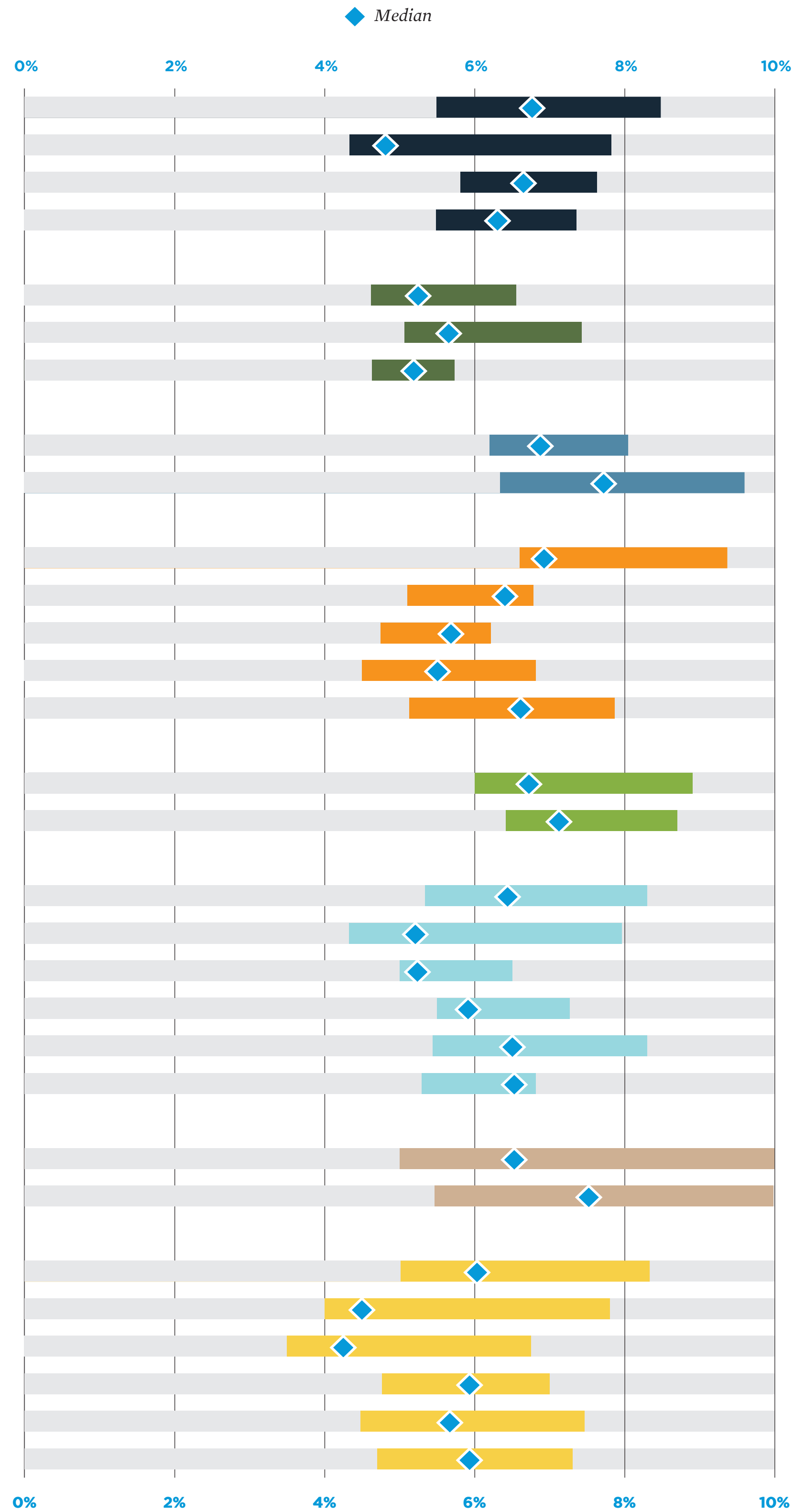
- **Niche segment valued by younger consumers.** Fitness centers registered a roughly 6 percent increase in year-over-year foot traffic during 2024 — one of the largest gains among retail categories. Gen Z's focus on physical and mental health is aiding segment brands; one such brand, Planet Fitness, reported record membership last year. New leases executed by fitness centers, gyms, and yoga and boxing studios also accounted for a 12.4 million square feet of space last year — a dynamic that may reshape some investors' perception of the property type.

- **Consolidations remain on property owners' radars.** The Kroger-Albertsons merger was blocked in late 2024; however, other corporate unions were closed that will alter competition, including Saks Global's acquisition of Neiman Marcus Group. Brand mergers are anticipated to stay elevated in 2025, kicked off by Tempur Sealy's acquisition of Mattress Firm in February.

Sources: IPA Research Services; CoStar Group, Inc.; Moody's Analytics; Real Capital Analytics

Closed STNL Cap Rate Range by Brand

Brand	Locations*
Auto Parts	
Advance Auto Parts	4,616
AutoZone	7,387
Caliber Collision	1,782
O'Reilly Auto Parts	6,378
Convenience Stores	
7-Eleven	13,122
Circle K	11,609
Wawa	1,000
Dollar Stores	
Dollar General	20,523
Dollar Tree/Family Dollar	16,590
Fast Casual Restaurants	
Applebee's	3,546
Bloomin' Brands	1,118
Chili's	1,625
Darden Restaurants	2,152
Red Lobster	568
Fitness Centers	
LA Fitness	695
Planet Fitness	2,637
Grocery & General Retail	
Kroger	2,722
Aldi	2,325
Safeway	2,273
Sherwin-Williams	4,739
Verizon Wireless	6,415
Walmart	10,660
Pharmacies	
CVS	9,135
Walgreens	11,830
Quick Service Restaurants	
Burger King	32,125
Chick-fil-A	2,990
McDonald's	43,477
Starbucks	40,576
Wendy's	7,240
Yum! Brands	61,346



** Number of locations globally, cap rate range derived from U.S. transactions*
Cap rates shown above are representative of transactions that closed in 2024.
Actual yields will vary by locations, tenant, lease terms and other considerations.
Locations sourced from RetailStat for public companies and company websites for private companies.

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Moody's Analytics; U.S. Census Bureau

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White House Policies Cloud Interest Rate Outlook, While Lenders Continue to Favor Retail

Fed may face tough choices ahead. The Trump administration's new policies pose complications for capital markets this year. Tariffs and a more stringent stance on immigration have the potential to raise prices while also slowing economic growth, both of which are important considerations for U.S. monetary policy. If inflation becomes persistently heated, it could prompt the Federal Reserve to raise the overnight lending rate. However, should the economy worsen drastically, it could push the central bank to cut rates. What the Federal Open Market Committee's ultimate actions will be over the course of this year remain uncertain. Longer-term interest rates, meanwhile, have been on a recent downward trend, falling into the 4.2 percent zone in early March after peaking at 4.8 percent in January. Uncertainty in the equities market led to increased demand for bonds, but the potential for elevated Treasury issuance at a time when key buyers of U.S. debt are pulling back — such as the Fed itself and other nations — could push yields back up. Due to these sources of uncertainty, the overall interest rate outlook for this year remains volatile.

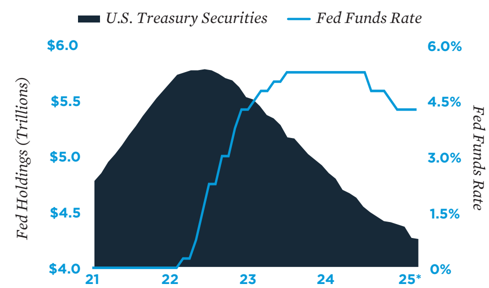
Multiple capital markets trends to benefit retail investors this year. Many lenders have increased their targets for 2025, and with retail as a widely favored asset class, capital should be readily available for prospective borrowers. While exact criteria vary depending on each borrower and property, as well as the type of lender, borrowing rates mainly fell into the 5.25 percent to 7.00 percent range as of early March, excluding bridge loans. Borrowers seeking non-recourse loans at rates in the 5.25 percent to 6.25 percent band may be able to turn to life insurance companies, provided the investment property is a grocery-anchored center or unanchored strip center. Borrowers seeking similar costs, but willing to accept recourse, should find opportunities with banks and credit unions, which are also open to a wider range of retail properties. CMBS is another prominent option. Together, these sources, along with local and regional banks, composed about half of lending last year. CMBS is also the primary avenue for interest-only loans. Rates here skew higher, however, reaching into the 6.25 percent to 7.00 percent zone, with terms mostly fixed at five or ten years only.

2025 CAPITAL MARKETS OUTLOOK

- **Headwinds facing certain retailers not deterring financing landscape.** Despite elevated store closings last year, and more closures slated for 2025 across both single- and multi-tenant formats, lenders remain largely unaffected. Properties occupied by specific tenants may face more scrutiny than in the past, yet low sector vacancy and minimal construction suggest any vacated spaces will be readily backfilled. If a property is facing an upcoming vacancy, lenders will likely still be open to the deal, but expect an additional reserve for prospective tenant improvements.

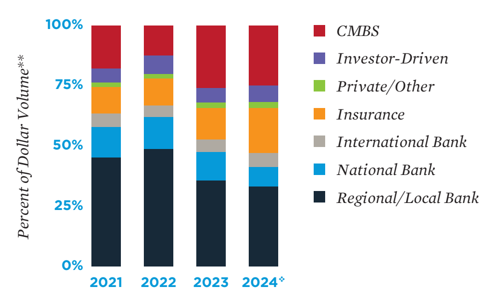
- **Financial sector holding stable.** While 15 banks have failed since 2019, with Chicago-based Pulaski Savings Bank marking the most recent shuttering in January, the FDIC's Problem Bank list is still nearly 70 institutions long. That said, relative to the banking sector overall, the share of potentially problematic banks still falls into the normal non-crisis range of 1 percent to 2 percent. Fewer banks were also tightening their loan standards as of last year.

Fed Continues to Reduce Its Balance Sheet



Treasury Yield Trends

Retail Lender Composition



* Through March 12
** Sales Volume $2.5 million and greater ✦Estimate
Sources: IPA Research Services; Federal Reserve; Real Capital Analytics

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